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R 251401Z MAR 08 ZDK CTG NUMEROUS SVCS
FM AMEMBASSY BEIRUT
TO RUEHC/SECSTATE WASHDC 1358
INFO RUEHEE/ARAB LEAGUE COLLECTIVE
RUCNMEM/EU MEMBER STATES
RHEHNSC/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC

UNCLAS SECTION 01 OF 02 BEIRUT 000418

SIPDIS

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STATE FOR NEA/ELA
STATE PASS USTR
TREASURY FOR MNUGENT AND SBLEIWEISS
USDOC FOR 4520/ITA/MAC/ONE
NSC FOR ABRAMS/SINGH/YERGER

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SUBJECT: LEBANON: IMF SEES POSITIVE OUTLOOK FOR 2008 DESPITE
POLITICAL SITUATION (ECONOMIC WEEK IN REVIEW, MARCH 17 - 19, 2008)

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IMF EXPRESSES POSITIVE 2008
OUTLOOK FOR LEBANON

11. (SBU) IMF resident representative Edward Gardner told us on March 18 that the outlook for 2008 looks positive even if the political situation remains unresolved, forecasting two to four percent GDP growth, continuing rise in deposit inflows, and a small drop in the debt to GDP ratio. On the fiscal side, he expects "another holding period" in the absence of a state budget. However, he does not foresee a financing problem due to high banking liquidity that allows banks to lend to the GOL to meet its financing needs. Gardner also noted that the IMF is discussing with the GOL options to replace the Emergency Post-Conflict Assistance (EPCA) program that ended in 2007.

GOL CONSIDERING LICENSING LOCAL AVIATION COMPANIES,
AIRPORT STAFF THREATENS OPEN STRIKE

12. (U) The employee syndicates of Lebanon's national passenger carrier Middle East Airlines (MEA) and MEA affiliated companies (providing ground services and maintenance) threatened to hold an open strike at Beirut's international airport (BIA) if the Cabinet authorizes the licensing of additional local passenger carriers, thus violating MEA's monopoly for passenger traffic until 2012. On March 18, the syndicates held a one-hour sit-in at BIA, closing access to the departure lounge, and issued a communique indicating that "this decision is also a step towards MEA privatization and threatens the jobs of about 800 employees."

13. (SBU) On March 18, the Cabinet decided to hold a special session to discuss Transport Minister Safadi's proposal for the licensing of passenger carriers in the presence of Central Bank of Lebanon (CBL) Governor Salameh - since the CBL owns 99 percent of MEA - and MEA Chairman Mohammad El Hout. El-Hout told us on March 18 that this same proposal was rejected by PM Siniora a year ago and wonders why it is being discussed again. He said MEA handles 35 percent of airport activity, and that the international trend is towards merging air carriers, noting the merger of U.S. Delta and Northwest. (Note: Safadi's proposal will affect MEA's activity at a time when MEA is expanding its fleet and preparing to list some of its shares on the Beirut Stock Exchange. End note.)

POST LAUNCHES 2008 LEBANON
COUNTRY COMMERCIAL GUIDE

14. (U) On March 18, Post hosted a roundtable of leading economic journalists to officially launch the 2008 Country Commercial Guide for Lebanon. During the event, Econoff gave a brief overview of the guide itself, highlighting Lebanon's investment-friendly environment and promising sectors such as Information and Communications Technology (ICT), while bearing in mind impediments such as red tape, corruption, weak IPR legislation, and political and security instability. Econoff also noted the high potential for business and investment in Lebanon, if political stability prevailed.

MERRILL LYNCH RECOMMENDATION ON
EUROBONDS REMAINS UNCHANGED

15. (U) Merrill Lynch maintained its recommendation on Lebanon's external debt at "Underweight" in its model portfolio of emerging markets debt for March, based on its continued negative political outlook and Lebanon's failure to elect a new president. According to Merrill Lynch, debt sustainability is not an issue in the

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short-term due to the strong banking sector and local holdings of external debt. However, continued political stalemate could affect medium-term outlook and debt sustainability could become a significant issue.

CREDIT SUISSE PUBLISHES 2008-2009
ECONOMIC AND FINANCIAL FORECASTS FOR LEBANON

16. (U) Global finance and investment firm Credit Suisse forecast Lebanon's real GDP growth at 3 percent in 2008 and 4 percent in 2009, the second lowest among 12 Emerging Europe, the Middle East and Africa (EMEA) surveyed. Meanwhile, it forecast Lebanon's inflation rate at 6 percent in 2008, 4 percent in 2009; fiscal deficit at 5.7 percent of GDP for 2008 and 4.6 percent of GDP for 2009; and GOL debt at 160 percent of GDP at end - 2008 and 157 percent of GDP at end - 2009.

LEBANON IMPROVES IN
CREDITWORTHINESS SURVEY

17. (U) In the Institutional Investor's semi-annual survey on creditworthiness, Lebanon ranked 115 out of 174 countries worldwide, up from 121 in the previous September 2007 survey. Lebanon remained ranked 17 among 20 MENA countries compared to the previous survey. The survey rates the creditworthiness of countries based on the input provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms.

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